



County of Los Angeles CHIEF EXECUTIVE OFFICE

713 KENNETH HAHN HALL OF ADMINISTRATION
LOS ANGELES, CALIFORNIA 90012
(213) 974-1101
<http://ceo.lacounty.gov>

WILLIAM T FUJIOKA
Chief Executive Officer

Board of Supervisors
GLORIA MOLINA
First District

YVONNE B. BURKE
Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

August 24, 2007

To: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Yvonne B. Burke
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

A handwritten signature in black ink, appearing to read "W. T. Fujioka", is written over the printed name and title.

SACRAMENTO UPDATE

State Budget

Governor Schwarzenegger held a press conference today at the Capitol Rotunda to sign **SB 77** and **SB 78**, the two bills that together make up the 2007 Budget Act.

Consistent with the legislative agreement that ended the 52-day budget stalemate, the Governor used his line-item veto authority to reduce spending by \$703 million. The majority of the veto reductions occurred in the Health and Human Services area (\$527 million) where the Administration reduced the Medi-Cal reserve by \$332 million, the Integrated Services for Homeless Adults with Serious Mental Illness Program by \$54.9 million, Medi-Cal managed care rate funding by \$106.3 million, among other program reductions. The other areas affected by the veto reductions included General State Government (\$70 million), Corrections and Rehabilitation (\$39 million), Legislative, Judicial, and Executive Branches (\$23 million), Resources (\$17 million), K-12 and Higher Education (\$26 million), and Labor and Workforce Development (\$1.0 million).

As a result of the line-item vetoes, based on our preliminary review of the Governor's actions, the previously estimated County loss of \$33.2 million increased to \$54.1 million. The attachment illustrates the estimated impact on the County which has been updated to reflect final adoption of the State Budget.

The following are line-item vetoes of interest to the County:

- **Integrated Services for Homeless Adults with Serious Mental Illness (AB 2034) Program.** The Governor eliminated all funding for the AB 2034 Program. The Statewide allocation was \$54.9 million. In his veto message, the Governor indicated that this reduction is necessary to limit program expansions and to help bring ongoing expenditures in line with existing resources. In addition, he mentioned that to the extent counties find the program beneficial and cost-effective, it can be restructured to meet the needs of each county with other funding sources, such as Federal, Realignment, or Mental Health Services Act (Proposition 63) funds. As previously reported, the Mental Health Services Act prohibits the use of Proposition 63 funds to supplant existing programs. The impact on the County is an estimated \$17 million loss.
- **Adult Protective Services (APS) Program.** The Governor eliminated the \$12 million augmentation for the APS Program. In his veto message, the Governor indicated that the elimination of the APS augmentation is needed to build a prudent budget reserve in light of uncertainties in revenues and spending. This action results in an estimated loss of \$3.1 million in additional funding for the County's APS Program.
- **County Equipment Replacement.** The Governor eliminated \$9.2 million to replace computer hardware for automated welfare systems including LEADER and the Child Welfare Services/Case Management System (CWS/CMS). In his veto message, the Governor indicated that the elimination of the funding is needed to build a prudent budget reserve. The Department of Public Social Services would have received an estimated \$2.8 million for the LEADER system, and the Department of Children and Family Services would have been eligible to receive a portion of the \$2.5 million Statewide for the CWS/CMS systems.
- **Medi-Cal Mental Health Managed Care Rate Restoration.** The Governor cut a \$12 million legislative augmentation for the five percent rate restoration for mental health managed care.
- **Medi-Cal Managed Health Care Plans.** The Governor reduced funding for the Medi-Cal Managed Care Program from \$214 million to \$106.2 million. The funding was intended to help Medi-Cal Managed Care plans, such as the County's Community Health Plan (CHP), to transition from the existing Medi-Cal managed care rates to a new experience-based rate setting methodology. In his veto message, the Governor stated that the reduction was necessary to provide for a prudent reserve. The County Department of Health Services previously indicated that eliminating or reducing this transition funding will result in significant implementation and financial difficulties for the CHP and DHS facilities that provide

health care services under the plan. In addition, funding reductions to the program will result in losses of Federal funding.

- **Children's Outreach Initiative.** The Governor deleted \$19 million for the county grants portion of the Children's Outreach Initiative. Even with this reduction, \$147 million still remains to fund other components of the Children's Outreach Initiative that streamline enrollment processes, improve retention, and support county-based enrollment efforts for children. In his veto message, the Governor indicated that the reduction was necessary to provide for a prudent reserve.
- **Emergency Preparedness/Local Pandemic Influenza and Response Planning.** The Governor eliminated \$8.5 million in one-time discretionary funding to local health departments for pandemic influenza preparedness and response planning. The Governor's veto message stated that the reduction was necessary to provide for a prudent reserve. At this time, there is not sufficient information to determine the impact of this reduction on the County's Department of Public Health.
- **Juvenile Justice Grants.** The Governor eliminated all funding in the two juvenile justice grants related to the retention of non-violent juvenile offenders. The Statewide allocation for the County Juvenile Justice Planning Grants was \$4.9 million, and the total allocation for the County Juvenile Justice Competitive Grants was \$10 million. In his veto message, the Governor indicated that he eliminated these funds because of the need to build a prudent reserve in light of the fiscal uncertainties in revenues and expenditures in the budget year. As a result of this action, the County will not receive a \$150,000 planning grant. Since the competitive grants were not formula based, the impact on the County is unknown.
- **California State Library.** The Governor deleted the \$1.0 million augmentation to the Public Library Foundation (PLF) Program. In his veto message, the Governor indicated that this reduction is necessary to limit program expansions and to help bring ongoing expenditures in line with existing resources. In addition, the Governor reduced the PLF Program by an additional \$7.0 million in order to further build a prudent reserve in light of the various uncertainties in revenues and spending. The County Library Department would have received an estimated \$100,000 from the PLF augmentation; however, as result of this action the Department will experience an estimated \$700,000 loss in FY 2007-08.
- **Grants for County Assessors.** The Governor deleted a \$3.5 million augmentation for grants to county assessors for the assessment of the fractional aircraft. In his veto message, the Governor indicated that the reduction is necessary to limit program expansions and provide a prudent reserve in light of the various uncertainties in revenues and spending. The Governor also noted that local governments are anticipated to receive \$28 million in property tax revenue in

Other key issues of interest to the County included in the adopted budget are:

- **Dual Agency Rates.** Effective July 1, 2007, the State will implement a single dual agency rate of \$2,006 per month for foster care and adopted children over three years of age who are also served by the State's Regional Centers due to a developmental disability. Counties will have the option to increase payments by up to \$1,000 per month if the child has the need for extraordinary care and supervision that cannot be met using the single dual agency rate. Caregivers of children 0 to 3 years of age will receive \$898 per month. Since the County currently pays less than \$2,006 per month for foster care children, the Department of Children and Family Services estimates that the dual agency rate will result in an annualized net County cost of approximately \$4.2 million.
- **Foster Care Payments.** Foster home and group home providers will receive a five percent rate increase effective January 1, 2008. The budget appropriates \$9.7 million for this purpose. As previously reported, an increase in the foster care provider rates will significantly impact Los Angeles County resulting in an estimated net County cost of approximately \$41.5 million for Title IV-E Waiver programs and \$5.1 million for non-Waiver programs over the five-year waiver period.
- **Transitional Housing Program-Plus (THP-Plus).** The budget retains \$35.6 million for the THP-Plus which provides affordable housing and comprehensive support services for former foster youth from 18 to 24 years of age. The County will receive approximately \$2.6 million which will fund 100 THP-Plus beds for youth 18 to 24 years of age emancipating from the foster care system.
- **Early and Periodic Screening, Diagnosis and Treatment (EPSDT) Program.** The budget includes \$1 billion for the EPSDT Program. As previously reported, the budget provides \$86.7 million to begin reimbursing counties for prior year claims over a three-year period.
- **HIV Surveillance.** The budget retains \$2.0 million to provide additional local assistance funding to increase surveillance staff for HIV reporting activities, as required by County-sponsored SB 699 (Chapter 20 of 2006).

Again, this analysis represents a preliminary review, and we will work with departments to provide additional information and to report as the Budget Trailer Bills are signed.

WTF:GK
MAL:MR:hg

Attachment

c: All Department Heads

**ESTIMATED IMPACT TO LOS ANGELES COUNTY
FROM THE 2007 BUDGET ACT**
(In Millions)

	May Revision	Conference Committee	Final Legislative Budget	Adopted Budget
<u>Reductions / Unfunded Programs :</u>				
Integrated Svs. for Homeless Adults with Serious Mental Illness	(17.0)	0.0	0.0	(17.0) ⁽¹⁾
Substance Abuse Crime Prevention Act Program (Proposition 36)	(7.0)	3.8	(5.0)	(5.0) ⁽²⁾
February 2008 Presidential Primary Election	(20.0)	(20.0)	(20.0)	(20.0) ⁽³⁾
Property Tax Administration Program	(13.5)	(13.5)	(13.5)	(13.5) ⁽⁴⁾
Mentally Ill Offender Crime Reduction (MIOCR) Program	0.0	(3.4)	?	? ⁽⁵⁾
Williamson Act Program Reduction	(0.04)	(0.04)	0.0	0.0 ⁽⁶⁾
Sub-Total	\$ (57.5)	\$ (33.1)	\$ (38.5)	\$ (55.5)
<u>Unavoidable Costs :</u>				
State-approved Foster Care Provider Rate Increase	0.0	(5.2)	(5.2)	(5.2) ⁽⁷⁾
State-approved Dual Agency Provider Rate Increase	0.0	0.0	(4.2)	(4.2) ⁽⁸⁾
Sub-Total	0.0	(5.2)	(9.4)	(9.4)
<u>Augmentations / Restorations :</u>				
Health Care Workforce Development	5.7	5.7	5.7	5.7
California Adult Probation Accountability & Rehabilitation Act	6.9	?	?	? ⁽⁹⁾
LEADER System Replacement	2.0	2.0	2.0	2.0
Transfer of Juvenile Justice Population to Counties	?	?	?	? ⁽¹⁰⁾
Adult Protective Services (APS) Program Augmentation	0.0	3.1	3.1	0.0 ⁽¹¹⁾
High Risk Pest Exclusion (HRPE) Program Augmentation	0.0	0.5	0.6	0.6 ⁽¹²⁾
Public Library Fund (PLF) Augmentation	0.0	0.1	0.1	(0.7) ⁽¹³⁾
Transitional Housing Plus (THP) Program Augmentation	0.0	2.6	2.6	2.6 ⁽¹⁴⁾
HIV Surveillance Local Assistance Fund Augmentation	0.0	0.0	0.6	0.6
Sub-Total	\$ 14.6	\$ 14.0	\$ 14.7	\$ 10.8
Estimated Net Impact	\$ (42.9)	\$ (24.3)	\$ (33.2)	\$ (54.1)

Notes:

- (1) The Budget eliminates the \$54.9 million Statewide allocation for the AB 2034 Program. This action will result in a loss of \$17 million to the County.
- (2) The Budget approves the \$20M Statewide reduction to the Proposition 36 Program, and \$5M reduction to the Offender Treatment Program from FY 2006-07.
- (3) Reflects the estimated cost for the County to conduct the February 2008 Presidential Primary Election. While the May Revision indicated the Administration's intent to provide reimbursement in FY 2008-09, the County will have to fund the election in FY 2007-08.
- (4) PTAP was suspended as part of the 2005 Budget Act with the understanding that it would be reinstated in FY 2007-08. The Budget does not restore the program.
- (5) The Budget restores \$29.7 million for the MIOCR Grant Program in FY 2007-08. Impact to the County is not known, as grant funds are awarded on a competitive basis.
- (6) The Budget fully restores funding for the Williamson Act.
- (7) Estimate reflects a 6-month impact on the County as new rates will be effective 1/1/08. Annualized impact is \$10.4 million. The Assembly-passed Budget approved a 5% rate increase for foster and group homes (foster family agencies were excluded). Under the Title IV-E Waiver, the County is responsible for covering the cost of the County and Federal portions of the rate increase.
- (8) Estimate reflects impact based on new rates as of 7/1/08. Potential impact includes supplemental rate increases which are at County discretion.
- (9) The Budget includes \$10 million for a 2-county pilot program. Alameda County has been identified as a pilot, and it is not known if Los Angeles will be the other.
- (10) SB 81 addresses the statutory changes for the implementation of the Juvenile Justice Realignment. The fiscal impact on the County is not known at this time.
- (11) The Budget eliminates the \$12 million funding augmentation for the APS Program. As a result of this action, the County will not receive an estimated \$3.1 million.
- (12) The Budget approves the proposal to augment the HRPE Program by \$1.5 million and \$700,000 for border inspections.
- (13) The Budget deletes the \$1.0 million augmentation and eliminates an additional \$7.0 million from the PLF Program. This action will result in \$700k loss to the County.
- (14) The Budget includes sufficient funding for the THP Program in FY 2007-08, and to reimburse counties for FY 2006-07 costs.

This table represents the estimated loss/gain of State funds based upon the May Revision, Conference Committee, Final Legislative Budget and Adopted Budget. It does not reflect the actual impact on the County or a department which may assume a different level of State funding or be able to offset lost revenue.